

EXECUTIVE SECRETARIAT

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Remarks:

Executive Secretary

Date

3637 (19-81)



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

Executive Registry
83-3945

June 20, 1983

CIRCULAR NO. A-73
Revised

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Audit of Federal Operations and Programs.

1. Purpose. This Circular sets forth policies to be followed in the audit of Federal operations and programs.
2. Rescissions. This Circular replaces Circular No. A-73, dated March 15, 1978, and Revision No. 1, dated November 27, 1979.
3. Background. This Circular is issued as part of Reform '88, an overall management improvement program intended to restructure the management and administrative systems of the Federal Government. The primary objectives of the Circular are to promote improved audit practices, achieve more efficient use of audit staff, improve coordination of audits, and require application of audit standards issued by the Comptroller General. This Circular was developed in consultation with the General Accounting Office, Inspectors General, and other affected individuals and organizations.
4. Applicability and scope. The provisions of this Circular are applicable to all agencies of the executive branch of the Federal Government, including the audit functions of Inspectors General and all other audit organizations.
5. Policy. Agencies are responsible for providing adequate audit coverage of their programs as an aid in determining whether information is reliable; resources have been safeguarded; funds have been expended in a manner consistent with related laws, regulations, and policies; resources have been managed economically and efficiently; and desired program results have been achieved. Audits of Federal organizations, programs, activities and functions, State and local governments (as required by Circular A-102, "Uniform requirements for grants to State and local governments"), and others (as required by Circular A-110, "Uniform requirements for grants to universities, hospitals, and other non-profit organizations") will be made in accordance with the standards issued by the Comptroller General.

(No. A-73)

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6. Definitions.

a. The term "audit" as used in this Circular includes not only auditors' examinations of financial statements, but also work performed in reviewing (a) compliance with applicable laws and regulations, (b) economy and efficiency of operations, and (c) effectiveness in achieving program results.

b. The term "audit standards" refers to those standards set forth in Standards for Audit of Governmental Organizations, Programs, Activities & Functions issued by the Comptroller General of the United States. Those standards incorporate the generally accepted auditing standards issued by the American Institute of Certified Public Accountants.

7. Responsibilities. Federal agencies will review the procedures and practices currently followed in the audits of their operations and programs, and initiate such action as is necessary to comply with the policies set forth in this Circular.

8. Action Requirements. Each agency will implement the policies set forth in this Circular by developing plans and issuing procedures for the guidance of its auditors.

a. Organization and staffing. Audit is an integral part of the management process. Audit services and reports should be responsive to the needs of management. However, in order to obtain the maximum benefit from audit, agency audit organizations must have a sufficient degree of independence in carrying out their responsibilities. This independence is provided for in certain departments and agencies by the statutes establishing the Inspectors General. To provide an appropriate degree of independence in other departments and agencies, the audit organization should be located outside the staff or program management structures of activities subject to audit and report to the head or deputy head of the agency.

Audit effectiveness is enhanced by audit coordination. Therefore, the operation or policy control of all audit activities in a department or agency should be under the direction of a single individual. Close coordination should be maintained between the audit organization, the designated audit followup official, investigative units, and other management review activities.

Adequate and qualified staff should be assigned to the audit function and adequate training provided to maintain and enhance the professional capabilities of the staff.

b. Audit universe. Each audit organization will maintain records of its universe which identifies the organizations, programs, activities, and functions subject to audit.

c. Determination of audit priorities. Each audit organization should periodically review its audit universe and determine the coverage, frequency, and priority of audit required for each. The review will include consideration of the following factors:

- (1) Statutory and regulatory requirements;
- (2) Adequacy of internal control systems as indicated by vulnerability assessments and internal control reviews required by Circular A-123, "Internal Control Systems;"
- (3) Newness, changed conditions, or sensitivity of the organization, program, activity, or function;
- (4) Current and potential dollar magnitude;
- (5) Extent of Federal participation in terms of resources or regulatory authority;
- (6) Management needs to be met, including key management decision dates, as developed in consultation with the responsible program officials and senior management;
- (7) Prior audit experience;
- (8) Timeliness, reliability, and scope of audits performed by others, such as State and local government auditors and independent public accountants;
- (9) Results of other evaluations (e.g., inspections, and program reviews); and
- (10) Availability of audit resources.

d. Cross-servicing arrangements. To conserve staff resources, promote efficiency, and minimize the impact of audits on the operations of the organizations subject to audit, Federal agencies should establish cross-servicing arrangements under which one Federal agency will make or oversee audits for other agencies, when such arrangements are in the best interest of the Federal Government and the organization being audited.

e. Reliance on non-Federal audits. Primary responsibility for audits of federally assisted programs rests with recipient organizations. These audits are required by Circular A-102, "Uniform requirements for grants to State and local governments;" Circular A-110, "Uniform requirements for grants to universities, hospitals, and other nonprofit organizations;" and, in the case of the block grants, the authorizing statutes or regulations. Federal agencies will rely on recipient audits, provided they are made in accordance with the audit standards issued by the Comptroller General and otherwise meet the requirements of the Federal agencies. Federal agencies may perform additional audit work building on audit work already performed.

f. Audit plans. Based on the considerations set forth in b, c, d, and e, above, each audit organization will prepare an audit plan at least annually. At a minimum, such plans will identify the programs and operations selected for audit, and define for each:

- (1) Specific reasons for the selection;
- (2) The overall audit objective and scope;
- (3) The locations to be audited;
- (4) The organization that will make the audit;
- (5) Staff days and other resources needed to perform the audit; and
- (6) Anticipated benefits to be obtained from the audit.

The plans should be flexible and adjusted as necessary to provide for audit coverage of unforeseen priorities. The plans should be reviewed upon completion with the head or deputy head of the agency.

g. Coordination of audit work.

(1) General. Federal audit organizations will coordinate and cooperate with each other in developing and carrying out their individual audit plans. Such actions will include continuous liaison; the exchange, where appropriate, of audit techniques, objectives, plans, and workpapers; and the development of audit schedules to minimize the amount of audit effort required. Similar coordination and cooperation should take place with the General Accounting Office and non-Federal audit staffs where there is a common interest in the programs subject to audit. Coordination among Federal agencies with respect to audits of State and local governments will be carried out in accordance with the publication, "Cognizant Audit Agency Guidelines," issued by the Joint Financial Management Improvement Program.

(2) Council on Integrity and Efficiency. The President's Council on Integrity and Efficiency was established to provide a mechanism for developing coordinated government-wide plans to prevent and detect fraud and waste, and implementing those plans. It is chaired by the Deputy Director of the Office of Management and Budget, and comprised of the Presidentially appointed Inspectors General, the Deputy Attorney General, the Director, Office of Personnel Management, and other key audit and investigative officials. The Coordinating Conference of the President's Council on Integrity and Efficiency is comprised of senior audit and investigative officials of other Federal agencies.

(3) Audit Forums. The National Intergovernmental Audit Forum and the Regional Intergovernmental Audit Forums were established, in part, to assist in coordinating audit coverage of Federal aid programs. Membership consists of Federal, State and local audit officials.

(No. A-73)

h. Availability of audit reports. With respect to public release of audit reports, each agency will establish policies in consonance with applicable laws, including the Freedom of Information Act and the Privacy Act. To the maximum extent possible, agencies will provide for the release of audit reports, in whole or in part, to those interested in them.

i. Audit Followup. Timely action by responsible management officials on audit recommendations is an integral part of an agency's management system, and has a direct bearing on the system's effectiveness. Each agency will establish procedures for resolving audit recommendations and taking corrective action in accordance with the standards contained in OMB Circular A-50, "Audit Followup."

9. Information Contact. Inquiries should be directed to the OMB Finance and Accounting Division at 395-3993.

10. Sunset Review Date. This Circular shall have an independent policy review to ascertain its effectiveness three years from the date of issue.



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Director